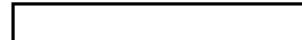
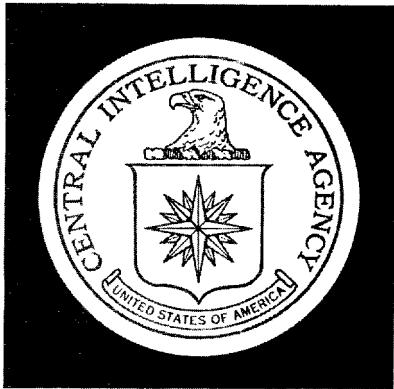


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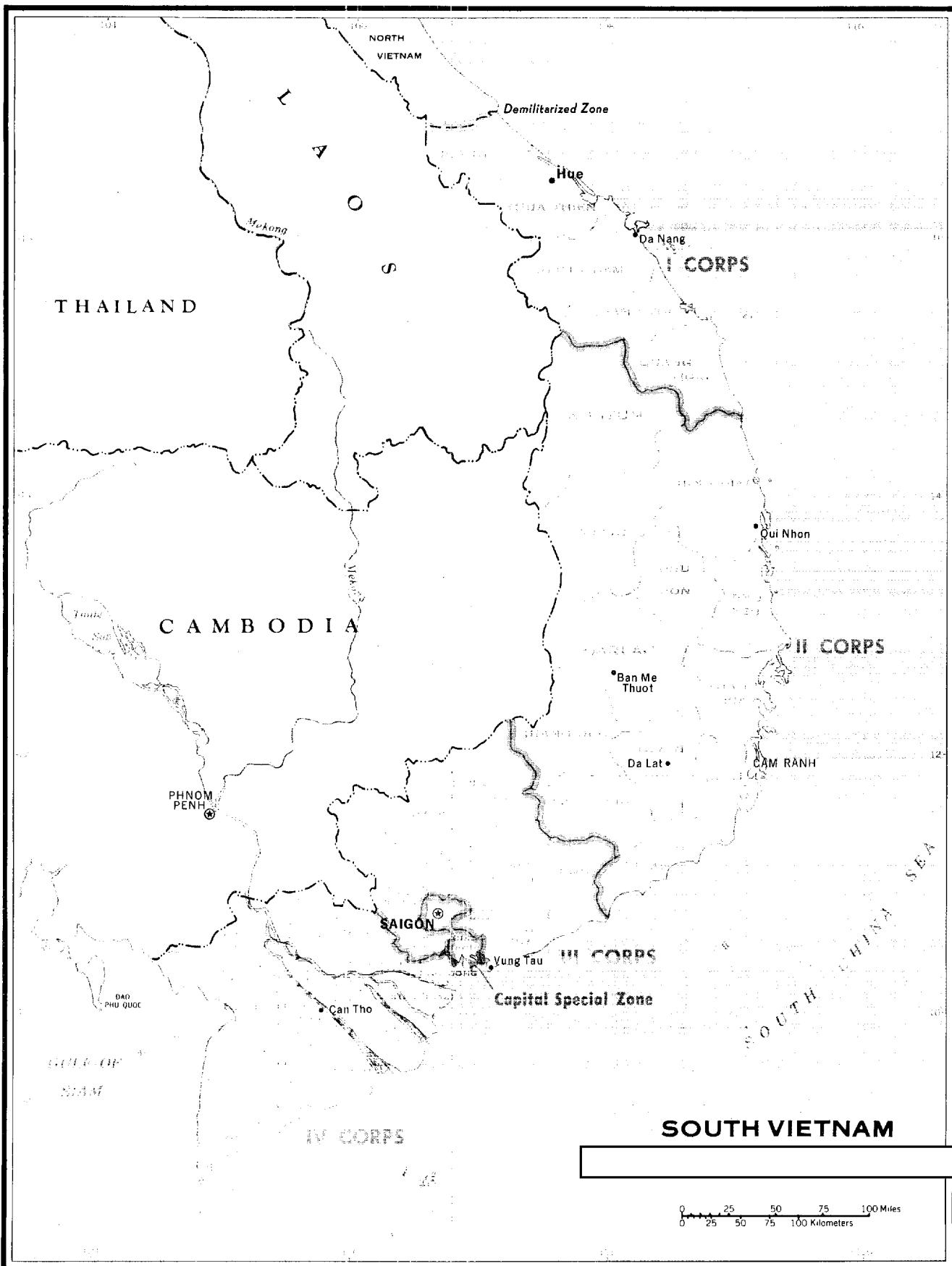
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[South Vietnam: Military activity was at a generally low level throughout the country yesterday.

The immediate threat to Hue and other targets in coastal Thua Thien Province appears to have diminished as a result of aggressive allied operations since early May. Heavy losses of personnel, weapons, and rice stocks are likely to inhibit any large Communist campaign in this area, at least until the enemy can bring up reinforcements and supplies.

Sporadic clashes, meanwhile, continue in Saigon where government troops are still trying to eliminate pockets of Viet Cong from a four-block area of the Chinese quarter.

\* \* \* \*

The semiofficial Vietnam Press reports that General Khang has submitted his resignation as commander of III Corps, allegedly because of his responsibility for operations in Saigon where several Vietnamese officers were killed by a misfiring US rocket on 2 June. The news was reportedly given the press by Vice President Ky, who described Khang's gesture as "logical" even though he had not ordered the air strike. Equally possible is that Khang, who is close to Ky, has used this device to register his dissatisfaction over increased civilian influence in the government at the expense of the military.

The US Embassy reports that there has been relatively little hostile Vietnamese reaction to the incident on 2 June. Of the few newspapers which have commented editorially, only two have implied that the rocketing might not have been a mistake, and only one has criticized air strikes in the city. One businessman, however, reported that there was general discontent over the suffering caused by fighting in the capital. He feared that, if such fighting continued for long, the reaction might be "explosive."

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Middle East - USSR: Moscow has almost completed its program to replace the arms lost by the Arabs in the war last June.

The USSR has now replaced about \$350 million of the estimated \$450 million worth of Arab military equipment destroyed or captured by Israel. Most of Egypt's aircraft losses and at least half of its tank losses have been made up. Nearly all of Syria's losses of both aircraft and tanks have been replaced. Iraq's inventory of jet fighters and tanks has increased. Some of the equipment supplied during the past year has been of newer design than the items replaced.

Dismayed over the inefficient use of Soviet military equipment by the Arabs during the hostilities, the Russians have also stepped up their training efforts by sending large numbers of military technicians, particularly to Egypt and Syria.

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The Arab governments probably raised the matter of future arms deliveries when Marshal Grechko toured the Middle East in March.

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South Korea: President Pak Chong-hui is moving to limit the impact of government party chairman Kim Chong-pil's surprise resignation last week.

Following a personal appeal to the party for unity the day before, Pak on 5 June named former Seoul mayor Yun Chi-yong acting chairman in place of Kim. Yun is a long-time party stalwart who served Pak well in the same job in 1963, after the President was forced by the infighting among his supporters to send Kim out of the country. Yun is not closely identified with any faction although he is regarded as personally close to Kim.

In view of the factional imbalance caused by Kim's departure, Pak may well decide to make other high-level changes. Rumors to this effect are spreading in Seoul. Such speculation has been reinforced by the return from Japan of Ambassador Om Min-yong, a former minister of home affairs and a confidant of the President.

Kim seems intent on withdrawing into the political background, at least temporarily. In a farewell speech to the party secretariat he called on his supporters to back the President and to put factional differences behind them. Nevertheless, maneuvering by his followers on his behalf will contribute to continuing unrest within the party.

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North Korea - Japan: Pyongyang has proposed a resumption of talks it broke off in January on the repatriation of Koreans from Japan.

This initiative, from the North Korean Red Cross Society to its Japanese counterpart, appears designed to create strains in relations between Seoul and Tokyo. In addition, Pyongyang would welcome the renewed opportunity offered by visits of its repatriation ships to Japanese ports to smuggle strategic goods out of Japan and to maintain an additional means of contact with its agents there. The North Koreans, however, appear unwilling at this stage to accept Japanese terms.

According to press reports, Tokyo probably will maintain the position that led North Korea to break off the talks in January. The Japanese will only discuss the situation of those Koreans who had applied under the agreement that expired last fall. Pyongyang, on the other hand, wants the agreement renewed, permitting new registration. South Korea, meanwhile, is pressing the Japanese strongly not to reopen the talks, and South Korean newspapers have raised the possibility of retaliation if the talks are resumed.

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Indonesia: President Suharto's new cabinet, while leaving the army in control of key security ministries, gives increased representation to the political parties and probably will have greater technical competence.

Announced yesterday, the cabinet is composed of 18 portfolio and five nonportfolio ministers. Six portfolios are held by the military and 12 by civilians. Most seem to be capable, trained individuals, some of whom can also qualify as party representatives. The influence of the five nonportfolio ministers, all civilians and four of them party personnel, seems likely to be slight.

Suharto retains the defense and security portfolio and Adam Malik remains as foreign minister. An able member of Suharto's staff of civilian economic advisers has been given the finance portfolio. The trade minister is Sumitro, an economist and a political exile during much of the Sukarno era. Mashuri, the education minister, is a capable non-party man who is both close to President Suharto and favorably regarded by Indonesia's politically activist students.

The cabinet has been under consideration since last March when Congress directed Suharto to form a new government by early July. Suharto seems to have drawn a skillful balance between meeting the demands of his various critics and ensuring a cabinet technically competent to push on with vital economic recovery and development programs.

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Mexico: The ruling Institutional Revolutionary Party (PRI) has suffered another local setback.

In Baja California municipal and state legislative elections held on 2 June, the small moderate National Action Party (PAN) apparently received the majority vote in the two important border cities of Tijuana and Mexicali and won several seats in the state assembly. PAN's chief, Adolfo Christlieb, has worked diligently to shake the party's old image of church-oriented conservatism. The party fears that its victories may be overturned by government fraud, but it is trying to avoid violence that would give the government an excuse to nullify the election.

PAN believes these new successes, which follow its unprecedeted electoral victories last year in the capitals of Yucatan and Sonora, will be repeated in other state elections this year. The first of 12 gubernatorial contests scheduled during the next few months was held on 2 June in the state of Michoacan, but no results are available.

The election in Baja California followed a large-scale desertion of PRI's membership to PAN. PRI's attempts to force unpopular candidates on the electorate and the poor relationship between the state's governor and the national directorate of PRI have led to serious disorganization of the party in Baja California. If the government acknowledges its losses there, the embarrassment will be particularly acute for new PRI president, Alfonso Martinez Dominguez, because this is the first election since he assumed party leadership in February.

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Czechoslovakia - West Germany: Prague will not re-establish diplomatic relations with Bonn for some time, according to a Czechoslovak Embassy officer in Warsaw. The diplomat stated that relations can develop favorably even without formal ties. He implied that any future negotiations on creating diplomatic ties may be handled by the trade missions recently established in the two countries. Reflecting Prague's cautious approach on this sensitive issue, he added that Czechoslovakia wants to act in accord with its allies. [redacted]

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Communist China: The Cultural Revolution continues to plague Chinese exports. Peking appears to have conducted less business at the recent semi-annual Canton Trade Fair than at previous ones. Western traders complained that Chinese export goods were in short supply and were offered at higher prices.

In the first four months of this year Chinese exports to Japan were almost 40 percent lower than for the last four months of 1967, and imports declined more than 20 percent. Western European traders indicate a similar downward trend. Higher freight rates resulting from the Suez Canal closure have increased the cost of fertilizer and other Chinese imports from Europe and have made Chinese agricultural exports less competitive. [redacted]

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Pakistan: A government spokesman told the Pakistani National Assembly on 6 June that Pakistan is progressively disengaging from CENTO and SEATO because these pacts "had lost much of their validity." He said Pakistan no longer participates in the military activities of the treaty organizations and is represented at ministerial council meetings only by an observer. He noted, however, that Pakistan still finds the pacts' economic and cultural activities of some benefit.

Although this does not represent a new policy, it is the first time the official attitude has been enunciated so explicitly in public. There is little likelihood that Pakistan will soon withdraw from either pact, since such a move would hurt Pakistan's relations with the US and with regional members of the organizations. [redacted]

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Mauritania: Labor and student unrest has been plaguing Mauritania, but the extent of the trouble is unclear. Eight were killed on 27 May when government security forces quelled labor disturbances at the northern mining center of Zouerate. On 3 June, police broke up demonstrations in the capital by lycee students protesting the "massacre at Zouerate."

President Moktar Ould Daddah has postponed the visit to Yugoslavia he had scheduled for this week. Moktar had also requested that French forces stationed in Dakar be alerted for possible intervention at Zouerate, although he subsequently canceled the request. [redacted]

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Dahomey: Noncommissioned officers of army elements based near the capital, perhaps emboldened by the recent "sergeants' coup" in Sierra Leone, unsuccessfully attempted a mutiny on 2 June. The junior officers who dominate the present regime used some of the same elements to oust a "senior officer" regime six months ago. The NCOs--now jailed--reportedly were angered that the junior officers have not made sufficient efforts to install a civilian government as promised last December.

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NATIONAL INTELLIGENCE ESTIMATE

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NIE 4-1-68      "World Trends and Contingencies Affecting US Interests"



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